

Discussion paper

EUROPEAN EMPLOYMENT OBSERVATORY
GERMANY

Germany in recession

Quarterly review of labour market trend and policies
4th Quarter 2008

by

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Contents

Executive Summary	4
1. Introduction	5
2. Update on economic and labour market trends	5
2.1. Recent labour market trends	5
Macro trends	5
Active labour market policy	6
2.2. Economic situation.....	7
3. Labour market policy developments	8
3.1. Policy actions	8
Combating the financial and economic crisis	8
Minimum wage legislation	8
Equity participation of employees	9
Collective bargaining.....	9
3.2. Public and scientific debate.....	9
Data protection.....	10
Efficiency of public employment services.....	9
4. Recent labour market reports	10
5. Impact of the financial and economic crisis	12
5.1. Situation in the financial sector	12
5.2. Policy measures	12
5.3. Outlook	15
Literature	16

Glossary

Business Foundation Allowance	<i>Gründungszuschuss</i> : New regulation of business foundation support for unemployed UB-I recipients for a period of 15 months at maximum (valid since 1 August 2006). During the first nine months, a lump sum of EUR 300 is paid in addition to UB-I as a contribution to social insurance costs. During the following six months the lump sum is continued to be paid only if the business became the main entrepreneurial activity.
Hartz reform	Reform of unemployment insurance under the Federal Employment Service (<i>Bundesagentur für Arbeit</i>) and active labour market policies, named after Peter Hartz, principal staff manager of Volkswagen and the president of the "Hartz Commission" established by the German government in 2002. The reform has four parts: Hartz I (2002): introduction of public temporary work agencies (Personnel Service Agencies – PSA) Hartz II (2002): reorganisation of public employment services; mini-jobs, ICH-AG Hartz III (2004): restructuring of public employment services to the Federal Employment Agency Hartz IV (2005): merger of unemployment aid and social assistance to UB-II
Midi-Jobs	<i>Midi-Jobs</i> : Registered employment with monthly wages between 401 and 800 € and reduced social insurance premiums.
Mini Jobs	<i>Geringfügige Beschäftigung</i> : Jobs with monthly incomes up to EUR 400. These can be regular or occasional jobs and jobs in addition to regular employment. Employers pay 30 % of wages to social insurance.
National Training Pact	<i>Nationaler Ausbildungspakt</i> : Agreement between the Federal Government and the employers associations to offer additional dual training places. The pact started in 2004.
Registered employment	<i>Sozialversicherungspflichtige Beschäftigung</i> : Employment contracts subject to public social insurance, i.e. dependent employment with salaries above 400 EURO per month.
Rehabilitation benefit	<i>Eingliederungszuschuss</i> : a wage subsidy for employers who employ long-term or disabled unemployed. Subsidies are limited to 50 % of wages for 12 months. For disabled or older workers the limits are 70 % of wages for a maximum period of 24 months.
Short-term work	<i>Kurzarbeit</i> : following articles 169 ff. SGB III, companies can apply for short-term work in the case of a considerable but temporary lack of work. At least one third of the work force must be endangered to loose at least 1/10 of the income. According to unemployment benefits workers receive 60 to 67 % of the omitting income. The maximum period is 18 months. Social insurance premiums are continued to be paid at the former levels. Employer contributions are subsidised by unemployment insurance.
Social benefits	<i>Sozialgeld</i> : non-employable persons in a subsistence-based partnership with at least one employable person receive social benefits. Above the age of 16 rates are equivalent to UB-II.
Subsistence-based partnerships	<i>Bedarfsgemeinschaft</i> : These partnerships are defined by the Hartz-IV act as the private income and property units obliged to individual transfers among its members.
UB-I	<i>Arbeitslosengeld I</i> : Regular unemployment benefits for singles provide 60 % of the last net income for 12 months. For parents the rate is 67 %. The regulation is included in Social Code Book III (SGB III).
UB-II "Hartz-IV"	<i>Arbeitslosengeld II</i> : Means-tested basic income for job seekers, paid after expiration of regular unemployment benefit. The basic rate is 351 EURO per month. The regulation is included in Social Code Book II (SGB II).
1 € Jobs Auxiliary public jobs	<i>Ein-Euro-Jobs</i> : Temporary jobs for UB-II recipients in the field of social and public services. They are remunerated by EUR 1 or 2 in addition to UB-II benefits. Jobs need to be for the public benefit and have to be additional to jobs in the premier labour market.

Executive Summary

This report is written in a phase when the German economy appears to be in a strongly ambivalent situation: employment experienced an all-time high in the fourth quarter of 2008 while the economy was already on the downturn. A great number of fully employed workers and free-spending consumers are opposed by the rapid deterioration of the business climate and job expectations. With enormous amounts of public spending the Federal Government tries to mitigate the crisis which – until now – nevertheless follows its trends obliviously.

The German economy is definitely in recession now: incoming orders in manufacturing declined rapidly as did industrial production. Business expectations are in free fall together with job expectations. Cyclical forecast meanwhile realised the existence of the crisis and came to gloomy conclusions: forecasts for 2009 range between –1 and –3 % of GDP decline.

The labour market was not yet affected by the economic changes. With 40.7 million workers, employment achieved a new peak. 1.9 million jobs were created since 2005. The signs of the crisis, however, gradually appear: job vacancies are declining; short-term work is increasing rapidly; and unemployment starts to rise. The unemployment rate was at 8.3 % in January 2009 – a plus of 0.4 percentage points compared to the previous year.

The financial sector in Germany continued to stay in its precarious situation. Enormous losses were revealed by various banks. The dynamics of the financial downturn will last for the whole year – some experts guess for a couple of years. Unemployment can be expected to increase rapidly.

The Federal Government launched two programmes to stabilise the financial sector and stimulate the economy. A total volume of 100 billion EURO is planned to be spent on public investments and tax preferences during the next years. Moreover, a rescue programme for the financial sector was implemented amounting to 480 billion EURO, and a stability programme for the non-financial sector with a volume of 100 billion EURO. Investment programmes show a bias towards physical investments into public infrastructure. Immaterial investments into education and training e.g. or general economic stimuli by tax reduction are underrepresented.

Regarding labour market policies, the parliaments passed the minimum-wage legislation which follows a sector-specific approach. Moreover, the regulations for equity investments by employees were improved.

Two evaluations of the Hartz Reform came to positive conclusions:

- The introduction of basic income provision (Hartz-IV) showed positive labour market integration effects according to the report of the Institute for Employment Research (IAB). However, it also expanded the low-wage sector.
- The decentralisation of public placement services for Hartz-IV recipients did not result in more efficient regional approaches. Compared to municipal services the services of the Federal Labour Agency (ARGE) achieved higher placement rates on average. This was due to the holistic approach and intensive consulting. The experiment nevertheless enriched active labour markets policies.

1. Introduction

The fourth quarter of 2008 was dominated by the appearance of the world financial crisis which strongly affected the German economy. The report therefore refers to the new situation in all its parts and in a particular Section 5 on the impact of the financial and economic crisis. Other issues of labour market development and policies are nevertheless reported.

2. Update on economic and labour market trends

2.1. Recent labour market trends

Macro trends

Until recently employment remained at high levels. Considering latest quarterly data, Germany achieved a peak of overall employment in the fourth quarter 2009: 40.7 million people were employed, and labour force participation rate was at 53.1 % (*Statistisches Bundesamt 2009*). 1.9 million additional jobs have been created since 2005 (+ 5 %). In parallel, the volume of working hours increased by 3.7 %, indicating that a great number of full-time jobs have been created. Even in December 2008 only a minor decrease of seasonally adjusted employment was reported (-0.03 %). The stocks of orders in the economy obviously were still sufficient to stabilise overall employment.

Nevertheless, the signs of the economic crisis gradually appear on the German labour market. In particular, the rapid deterioration of employment expectations since the middle of 2008 indicates that companies have changed their human resource plans drastically (Chart 1).

Moreover, the increase of short-term work shows present overcapacities in firms: applications for short-term work benefits increased by 240,000 within one month from November to December 2008¹. Compared to the previous year, this was an increase by 302,000. A further strong increase is expected for the next months (*Bundesagentur für Arbeit, Monatsbericht, January 2009*).

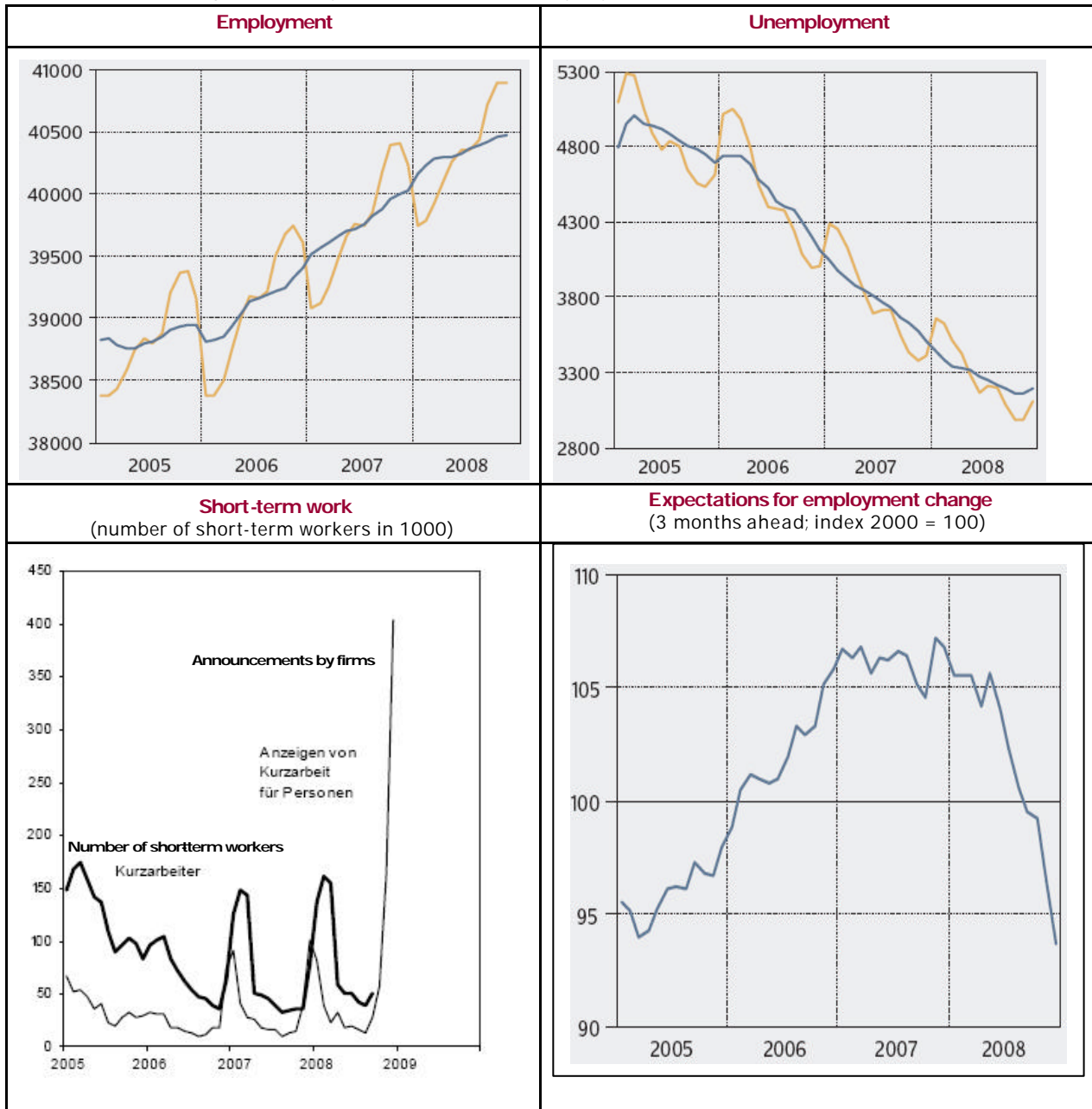
In the fourth quarter vacancies decreased by around 10 % compared to the previous year, and first results for January 2009 indicate a further strong decrease of staff search.

Unemployment increased by 387,000 in January 2009 to the level of 3.489 million (+12 %). Seasonally adjusted this was an increase of 1.6 % within one month. The rise of unemployment was stronger in Western Germany (+1.9 %). Regular unemployment (among persons eligible for UB-I) increased by seasonally adjusted 2.6 % while unemployment among UB-II recipients increased by 1.1 %. Long-term unemployment decreased to 30 % due to the rising number of entries.

The unemployment rate increased to 8.3 % in January 2009 (+0.4 percentage points compared to the previous year). By ILO standards this was 7.4 %. Eastern Germany continued to stay at the double level of unemployment rates compared to the Western part.

¹ Companies are obliged to apply for short-term work at public labour agencies in advance. Workers are eligible to short-term benefits as far as at least 10 % of the staff is becoming redundant due to a temporary decrease of demand. Benefits amount to 60 % (67 % for workers with dependent family members) of the loss of net wages. They are paid for the maximum period of 18 months. With the new business cycle promotion programs, employer contribution rates to social insurance are now refunded partly or fully by unemployment insurance.

Chart 1 Employment trends
Germany
Original values (yellow line) and seasonally adjusted values (blue line) in 1000



Source: Bundesagentur für Arbeit, Ifo-Institut, Bundesministerium für Wirtschaft und Technologie (February 2009).

Active labour market policy

Public employment services expanded their activities. Compared to the previous year, the number of participants in active labour market policy measures increased by 3.9 % (Table 1). In particular, support of job seekers doubled. Training measures also expanded (+ 19.8 %). Support for dependent workers also increased substantially (+39.7 %) while self-employment programmes were reduced (-27.7 %). Employment creation did not see much change.

Table 1 **Active labour market policy**
Germany

	January 2009 (1000 participants)	% change to previous year
Improving chances on primary labour markets	724.8	20.3
Counselling and support to job seekers	162.8	100.2
Training and qualification	252.0	19.8
Preparatory measures to training	310.0	-0.2
Support of people on jobs	362.4	1.2
Support of employees	214.7	39.7
Support of self-employment	147.7	-27.7
Employment creation	325.3	1.8
Employment opportunities for UB-II recipients	288.8	1.5
Job creation measures	36.5	4.3
Other support measures (free selection)	126.5	-37.2
Total (estimated)	1539.0	3.9

Source: Bundesagentur für Arbeit (January 2009)

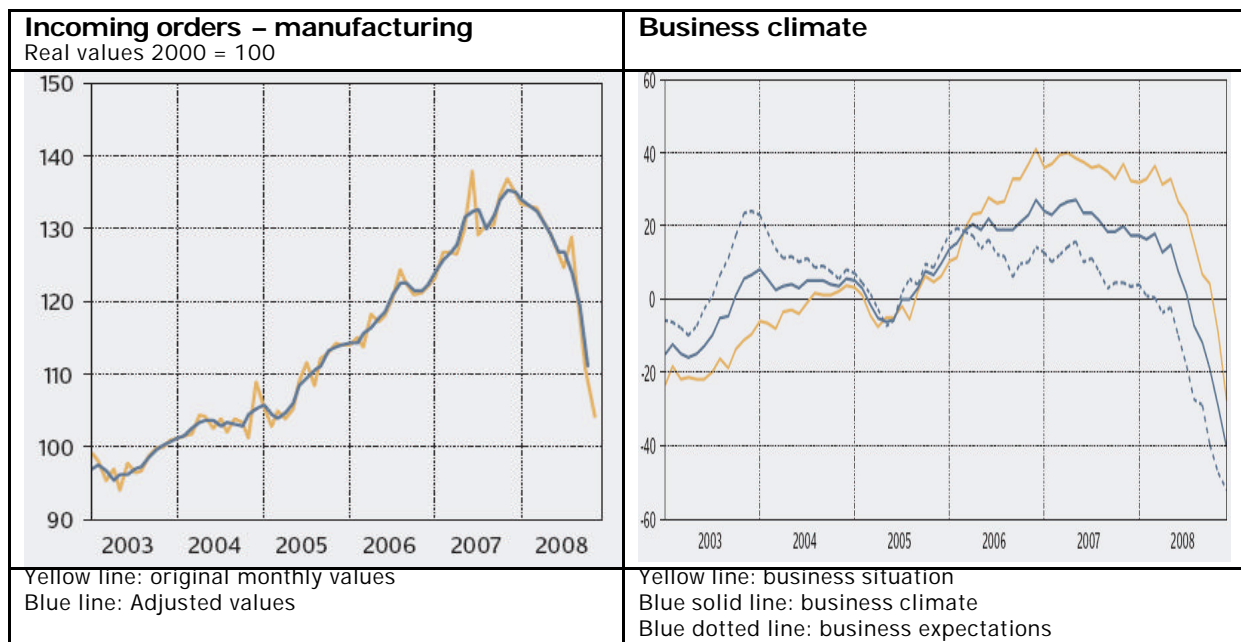
2.2. Economic situation

In contrast to the labour market, the economic situation deteriorated radically in autumn 2008:

- Incoming orders in manufacturing decreased by 17 % within three months
- Business climate deteriorated rapidly, due to both, negative assessments of the actual business situation and gloomy expectations for the next six months
- Industrial production shrunk by 10 % within three months

GDP can thus be expected to have declined for three quarters in sequence during 2008. Germany is definitely in recession.

Chart 2 **Economic indicators**

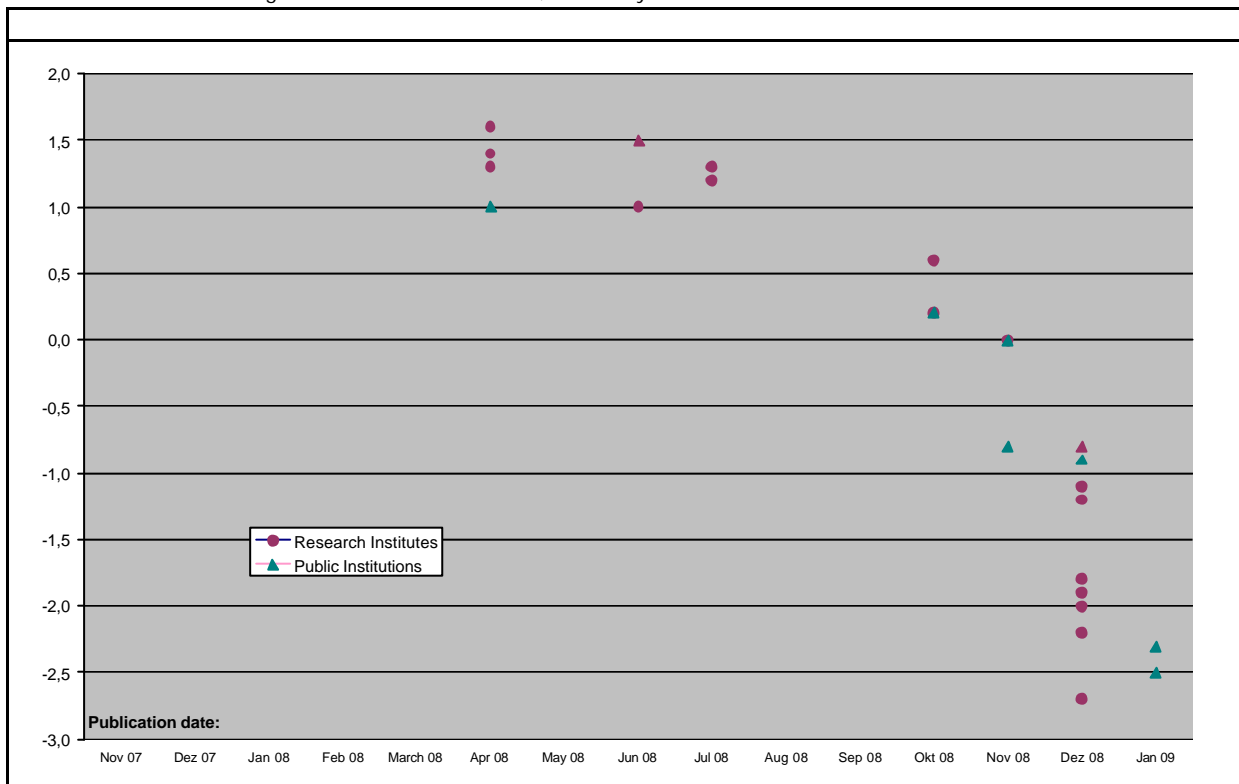


Source: BMWi (2009)

Private consumption is the only area of demand that did not collapse until now. This might be affected by the escape into real values as consumers see the high risks of financial assets. Predominantly, however, it is due to rising wages and the lags of employment in business cycle development. Order stocks were high until recently and thus employment also was kept at high levels. The unemployment shock still has to be awaited.

GDP forecasts rapidly adjusted to the new situation. By October 2008, expected growth rates started to decline almost in free fall. Latest forecast from January 2009 range between -2 and -2.5 % for the German GDP in 2009. The German Federal Government expects a decrease of $2 \frac{1}{4}$ % (Chart 2).

Chart 3 GDP forecasts for 2009 by publication date and type of institution
GDP growth rate for 2009 in %; Germany



Source: IAB, Economix

3. Labour market policy developments

3.1. Policy actions

Combating the financial and economic crisis

With two business cycle programmes, the Federal Government prepared economic stimuli with a total volume of 100 billion EURO for investments and tax preferences. State guarantees were given to the financial sector, which is protected by a rescue programme with an amount of 480 billion EURO, and the "real economy" which might receive up to 100 billion EURO in case of bankruptcies. The details of these programmes are given in Section 5.

Minimum wage legislation

With the approval by the German Bundestag (*the federal parliament*), a sector-related minimum-wage regulation was introduced (*BMAS 2009*). The regulation consists of two

acts:

- the expatriates act (*Arbeitnehmer-Entsendegesetz*) that allows declaring collective wages mandatory for the sector
- the act on minimum working standards (*Mindestarbeitsbedingungengesetz*) that allows introducing minimum wages in sectors where social partners are not represented adequately

Six new branches were included in the expatriates act²:

- care services
- security services
- mining specialists
- laundry services
- waste industry
- continuing training

In total three million workers are protected by the regulation. In addition to collective wages, workers are guaranteed overtime premiums, and holidays. Both national and foreign employers are committed to the rules as far as the work is executed on the German territory. Agency work was not included but is planned to be protected through the Agency Work Act. Mail services are still in legal disputes.

Equity participation of employees

The new regulation of financial investments of workers in their company or a special staff participation fund (*Mitarbeiterbeteiligungsfond*) the Federal Government provides extended support (*BMAS 2009*):

- the public wage earners saving benefit (*Arbeitnehmersparzulage*) is extended from 18 to 20 % of annual savings that are invested into the employer's company or a fund.
- Income limit for saving benefits are raised from 17,900 to 20,000 EURO annually for singles and from 35,800 to 40,000 EURO for married workers.
- Tax-free investments are generally limited to 360 EURO per year (135 EURO until recently).

Investments have to be places in the company of the employer, or in a staff participation fund which invests at least 60 % of its capital in the companies of the workers. Investments of funds are specifically restricted in order to improve the security of investments.

Collective bargaining

In 2008 collective wages increased around 3 %, however agreements ranged widely between 2 and 5 %. With the financial crisis, the rates of increase declined as in metal industries that accepted a 2.1% wage growth. Negotiations in the banking sector were postponed without an agreement (*Bispinck 2009*).

The chemical industry concluded a collective treaty on "working life and demography" regulating working life accounts and old-age part-time schemes. Similar agreements were signed in the metal industry and other sectors.

3.2. Public and scientific debate

Efficiency of public employment services

The Federal Government presented the final results of the evaluation of decentralised em-

² In addition to the six branches already covers by the act: construction industry, roofers, painters, electricians, house cleaning services, mail services

ployment services (*Deutscher Bundestag 2008*). These were introduced in January 2005 and allowed a limited number of 69 municipalities to take the responsibility for the consultation and job placement of UB-II recipients. The evaluation had to assess how these services performed in comparison to regular job centres of the Federal Labour Agency (*ARGE*).

The evaluation revealed that *ARGEs* performed significantly better than municipal services: placement rates of the *ARGEs* were 18 % higher, and employability was 10 % higher. The better performance of the Federal Labour Offices was associated with

- a holistic approach with integrated case management
- intensive consulting with extensive initial meetings with the unemployed and a dense sequence of follow-up meetings
- activating monitoring with support and sanctions
- professional consulting

The *ARGEs* were able to activate faster and more target-oriented. Performance differences are attributed to challenging rather than supporting beneficiaries. The segmentation of target groups showed negative effects.

The decentralisation experiment nevertheless provided a great variety of approaches which enriched active labour market policies in Germany.

Data protection

In the course of two prominent scandals where the German Rail Company (*Deutsche Bahn*) and the German Telecommunication Company (*Telekom*) examined all or great parts of their employees in secret investigations, the need for data protection for employees was discussed. The Federal Ministry for Labour and Social Affairs is planning a legislative initiative to improve the situation. The principle of commensurability was not considered adequately and thus demands for new or additional regulations.

4. Recent labour market reports

Aktivierung, Erwerbstätigkeit und Teilhabe – Vier Jahre Grundsicherung für Arbeitsuchende. (Activation, Employment and Participation – Four Years of Basic Income Provision for Unemployed). By Koch S., Kupka P., Steinke J. (2009). IAB-Bibliothek Volume 315. Institut für Arbeitsmarkt- und Berufsforschung, Nürnberg.

In parallel to the external evaluation of the Hartz Reform, the Institute for Employment Research at the Federal Labour Agency (*IAB*) evaluated the introduction of basic income provision through the Hartz Reform. The merger of former unemployment aid and social security benefits to the basic income called “unemployment benefit II” or “Hartz-IV” was the last and probably most important element of the reform in 2005. The evaluation study looks at the effects of the reform regarding activation, labour market participation and social integration. Launched by the Federal Ministry of Labour and Social Affairs, the study particularly emphasises the aspect of social integration.

The effects of the reform are summarised as follows:

- In contrast to expectations the number of people eligible for benefits increased after the introduction of Hartz IV.
- While the overall effect of the reform on income distribution remained small, the distribution among transfer income recipients changed: the lowest 20 % profited while the highest 20 % saw declining transfers.
- Labour supply increased regarding both participation and working hours. Couples and single men expanded labour supply due to the decline of transfer payments. Single

women reduced labour supply due to the rise of transfer payments.

- The probability to be locked in the system was lowest for singles and couples without children (30 %) while it was highest for single parents (60 %).
- Company-based measures of integration appeared to be more successful than publicly organised job creation.
- The instrument of One-EURO-Jobs was able to show positive labour market integration effects at least in the long-run.

In view of companies, the reforms improved the acceptance of lower wages, special working conditions or a lower qualified job by workers and job applicants. It was easier to find workers for difficult-to-fill jobs. While it remains unclear whether these changes mainly happened among Hartz IV beneficiaries, the result points to principal changes on the German labour market that were also induced by the Hartz Reform.

While the evaluation confirms the success of the reforms, it points to three shortcomings which demand for advancements:

- the reforms contributed to the expansion of the low-wage sector; the promotion of upward mobility therefore appears to be essential
- the quality of consulting services and case management needs to be improved
- the treatment of target groups with particular problems is weak; women e.g. are underrepresented in the various measures.

Ungenutzte Potentiale – Zur Lage der Integration in Deutschland. (Unused Potentials – On Integration in Germany). Berlin Institut für Bevölkerung und Entwicklung. 2009

Almost 20 % of the German population have a migration background and their proportion is rising, because migrants contribute one third to the children born in Germany. This demographic development points to the importance of successful integration.

The report of the Berlin-Institute for Population and Development comes to mixed results:

- The 2 million migrants from EU-countries are the best integrated proportion, followed by the group of German resettlers from Eastern Europe. The migrants of these groups came to Germany with a comparatively high level of education and thus had fewer problems to enter the labour market.
- Migrants from Far-East also achieved strong integration. The level of education is increasing in the second generation but labour market participation is low.
- Migrants from the former Yugoslavia show bad integration results in education and assimilation. However, their integration in the labour market is good.
- From 2.8 million people of Turkish origin almost 50 % were already born in Germany. However, 30 % of people with Turkish origin have no school leaving certificate and only 14 % achieved an entitlement to higher education, what is less than half of the German population.

Integration shows different results in the German regions: Hessen and Hamburg showed relatively good values while the Saarland and the Ruhr area have the biggest problems. Cities like Munich, Frankfurt, Bonn and Düsseldorf have been noticed favourably. But even in regions with better results, people with migration background are more than twice as often unemployed and more than twice as often dependent on public benefits than natives.

The report suggests the expansion of education and training investments for migrants and their dependents. It also urges for the removal of entry barriers to labour markets through the approval of educational degrees, the easing of business foundations, the promotion of compensating adult training, and the improvement of equal opportunities. These measures appear to be essential in face of the rising importance of migrants in Germany.

Familienreport 2009 (Family Report 2009). Bundesministerium für Familie, Senioren, Frauen und Jugend. Berlin.

The report submitted by the Federal Ministry for Family, Elderly Persons, Women and Youth presents a review of family policies in recent years. It summarises the experience with the newly designed family policy in Germany.

The newly introduced Parent Allowance (*Elterngeld*) is seen to have changed the downward trend of birth rates. Since 2004 the average birth rate per woman increased from 1.33 to 1.37. A minor but nevertheless an improvement as a rate of 1.6 would be necessary to balance population figures. The Parent Allowance reduced poverty among single parents.

Total public expenditure for families expanded to 112 billion EURO in 2007. On average 6,050 EURO were spent per child in that year.

5. Impact of the financial and economic crisis

5.1. Situation in the financial sector

While it remains difficult to perceive the present situation in the financial sector, various signals indicate that the end of the financial crisis is far from being visible. The overall amount of "toxic" bonds still held by German banks was recently estimated between 300 and 800 billion EURO (*Handelsblatt 19 January 2009*). Stock trading for own accounts was more or less suspended by banks. The number of financial institutions that used credits and guarantees of the public German rescue fund (SOFFIN) increased. In particular,

- Commerzbank – employing a staff of 37,000 worldwide – became a partly state-owned bank after an investment of 16.4 billion EURO (25 % of equity) by SOFFIN. The bank announced cutting the number of jobs by 9000 worldwide (24 % of workforce). Top salaries were cut (Wikipedia.de).
- Hypo Real Estate – a private real estate bank – received 50 billion EURO from the public resources and additional 30 billion EURO as state guarantees in order to survive until April 2009 at least. Complete nationalisation of the bank is now considered as the last resort.
- Deutsche Bank – biggest private bank in Germany with 80,000 employees worldwide – did not use public support until now but suffered a loss of 3.9 billion EURO in 2008 after financial adjustments on bonds of 7 billion EURO. Asset management is operating with losses and private banking showed strongly decreasing profits (*Handelsblatt 6/7 February 2009*).

The few spotlights reveal the precarious situation of the German banking system. While substantial risks are still hidden in the accounts, the economic situation is deteriorating rapidly. The number of bankruptcies can be expected to increase strongly during this year as recent prominent examples revealed (Rosenthal, Märklin, Schiesser e.g.). Credit defaults in the non-financial sector will accumulate further. The dynamics of the financial downturn will therefore continue during this year – some experts guess for a couple of years.

5.2. Policy measures

The German Federal Government is combating against the broadening of the crisis through three major programs:

- Stabilisation program for financial markets (*Finanzmarktstabilisierungsprogramm*) from 13 October 2008 with a volume of 480 billion EURO for state guarantees and capital investments.

- Business cycle promotion program I „job stability through the promotion of growth“ (*Konjunkturpaket I „Beschäftigungssicherung durch Wachstumsstärkung“*) from 5 November 2008, with a total volume of 50 billion EURO to stimulate investment and consumption, and 15 billion EURO to stabilise private enterprises.
- Business cycle promotion program II „pact for employment and stability“ (*Konjunkturpaket II „Pakt für Beschäftigung und Stabilität“*) from 14 January 2009, with a total volume of 50 billion EURO to expand the stimuli expected from program I, and a protection screen of 100 billion EURO for the non-banking sector.

Table 2 Business cycle promotion program I (5 November 2008)

Area	Measure	Amount/ expected effect (billion Euro)	Period
Capital market programs	State Guarantee Fund (SOFFIN)	480	/
Investment programs	Energy-efficient buildings	3	2009-11
	Transportation (highways, waterways and rail traffic)	2	/
	Tax exemption for new cars for at least one year	/	2009-10
	Infrastructure program for disadvantaged municipalities	3	/
	Improvement of regional economic structures	0.2	/
	KfW bank extends investment in innovation (energy research)	/	/
Financial support	Supply of credits for small and medium-sized enterprises (SME) by the KfW bank	15	2009
	Credits with low interest rates for investments to save energy	0.3	/
	Degrassive depreciation of movable assets (25%)	2.5	2009-10
	Through a rise of relevant business asset- and profit limit more SME can make use of special depreciations	/	2009-10
	Raised tax deductibility of craft services (20% of craft bills up to 6,000 Euro)	1.5	2009-10
Labour market programs	Prolongation of short-time work benefits from 12 to 18 month	/	2009
	Extension of continuing education for low-skilled and older employees (<i>WeGebAU</i>)	/	/
	1,000 additional jobs in public labour agencies for consulting and job placement	/	2009-12

Source: Federal Government Germany

All three measures were and are urgently required to stabilise the financial sector and to compensate the effects of the business cycle downturn at least partly. Until now, mainly the financial stabilisation program is operating, while the other two programs are in the phase of implementation.

Tables 1 and 2 contain the lists of measures planned under the two programs. They follow a series of targets:

- Improvement of public infrastructure (schools, communal infrastructure, traffic routes etc.)
- Raising energy efficiency and reducing CO₂ emission
- Promoting the car industry
- Promoting innovation and research
- Stabilising SMEs
- Promoting competitive jobs and employment

Table 3 Business cycle promotion program II (14 January 2009)

Area	Measure	Amount/ expected effect (billion Euro)	Period
Investment programs	Extension of central innovation program for SME	0.9	2009-10
	Expansion of broadband internet connection	/	/
	Environmental bonus of €2,500 for new car purchases if the purchaser deregisters a vehicle that is older than nine years.	1.5	2009
	Revision of car tax: A switch from the prevailing car tax to a carbon dioxide oriented tax in July 2009 is planned	0.2	/
	Investment in education, especially energy-efficient reconstruction of schools and universities and research	6.5	/
	Modernisation of communal infrastructure, especially hospitals, urban development, rural infrastructure and noise remediation	3.5	/
	Extension and modernisation of federal traffic routes.	2	/
	Federal buildings, equipment and resort research	2	/
	Fostering application-oriented research in the field of mobility by supplying (e.g. hybrid motors)	0.5	2009-10
Financial support	KfW bank guarantees for SME	100	/
	Raise of tax threshold to € 8,004 until 2010	8	/
	Lowering of entry rate of tax from 15 to 14 %	9	/
	Lowering of employees' health insurance contributions by 0.6 % in July 2009	1.8	/
	one-off bonuses of € 100 per child	/	/
	Increased child benefit payments for the long-term unemployed	/	/
Labour market program	Remission of half of the social-insurance contributions during the period of short-time work benefits. If the period of short-time work benefits is used for qualification the social-insurance contributions will be refunded completely upon request	/	2009-10
	Stabilisation of compulsory contribution rate for unemployment insurance at 2.8 %	/	/
	Measures to activate and qualify unemployed	1.2	2009-10
	Qualification of special target groups (e.g. employees over 25 without apprenticeship qualification)	0.8	2009-10
	Extension of qualification of employees (WeGebAU)	0.2	/
	vocational education during the period of short-time work, benefits form European Social Fund	0.2	2009-10
	5,000 additional jobs in Labour Agencies for job placement and consulting	/	/

Source: Federal Government Germany

They nevertheless have a strong focus on infrastructure investments which mainly favour construction and environmental industries. Moreover, the car industry is particularly addressed. Other sectors will only be affected indirectly through supplies to these major industries or more generous depreciation rules. This contains the danger of price effects

resulting from increasing demand in the particular sectors.

Employment is supported by measures lowering non-wage labour costs (stable unemployment insurance rates, refunding of social contribution rates for short-term workers) and training measures. Moreover, job placement services of public labour offices will be extended.

Private consumption is supported through lower entry rates for income taxes, lower health insurance rates and higher child benefits. Moreover crafts services can be partly deducted from income tax.

5.3. Outlook

Germany was among the last countries being affected by the exceptional worldwide economic crises. However, it is now fully captured by downward trends. 2009 can be expected to become one of the most difficult years of the after-war period. The German labour market is meanwhile turning downwards and unemployment can be expected to increase rapidly during the year.

The German Federal Government made big efforts to combat the crisis, in particular to avoid the breakdown of the financial system. It will probably be overstressed to avoid a serious recession of the economy, as the destructive power of the declining world economy will be too strong.

In this situation, the importance of long-term restructuring policies is rising – not to remove present difficulties, but to leave the crisis with a strengthened economy. The reform of the financial system appears to be the most urgent task to achieve effective control over capital markets and financial institutions. The continuation of the business models practised by banks and financial intermediaries during the last decade must be stopped.

Moreover, investments into education and training as well as research and innovation appear to be more important than the promotion of physical infrastructure. The German Governments could have taken the decision to use the expanded public credit funds for important immaterial investments. It appears as one of the shortcomings of the present programs this was not realised.

The crisis will certainly have long-term growth effects, in particular if public credits will have to be repaid at some point in future. This will curb growth for future generations through high taxes. However, there is little choice actually. Governments can only try to achieve the maximum of long-term growth effects with its present investments. This however is far from being guaranteed.

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